CAPITA SYMONDS

Second Opinion Viability Report:

Rainbow Trading Estate, Raynes Park, SW20

Date: June 2013

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Ref.	Assumption	Capita Symonds Comments
Overview		
	Report Overview	In order to assess the viability of the proposed planning brief for the Rainbow Industrial Estate, Capita Symonds were commissioned to review the Viability Report prepared by Strutt and Parker in October 2012. In order to test the assumptions made in that report, Capita Symonds has prepared its own sensitivity analysis, which tests the assumptions made by S&P and includes an independent appraisal. The differences between the two reports and any other points of note are described below. It is worth mentioning that both viability reports have been based on a high level masterplan that has been created for the purposes of making planning policy. This is not a planning application and, as such, deals with the principals and general values at high level. Given the above, it is unsurprising that there are a number of discrepancies relating to particular inputs between the two reports. Despite these discrepancies Capita Symonds is of the opinion that the proposed planning brief for the site can deliver a viable development scheme. On balance, we believe that the assumptions made by S&P in determining the viability of the proposed development are fair and that the overall assessment of the site is within an acceptable tolerance. On this basis, we concur that the site appears to be reasonably viable, deliverable and that the quantum of residential is required to enable employment-led regeneration of the site.

Ref.	Assumption	Capita Symonds Comments
Existing Use Value (EUV)		
1.0	**Site Value Benchmark (SVB)**	It is our view that the SVB has been overstated in the Strutt and Parker (S&P) Report. The reason for the difference in opinion appears to hinge on the interpretation of the various guidance available. S&P have based their approach on the latest RICS viability guidance, which has regard to development plan policies and other material planning considerations when determining the existing use value of the site. As such, the SVB has been derived assuming a mixed-use scheme with a high residential content as per the Draft Planning Brief (June 2012). Given that the planning brief is yet to be agreed, we are of the opinion that this does not hold significant weight when determining the Site Value Benchmark. As such, we are assessing the Site based on its potential to be redeveloped as an employment-led site under use classes B1 (b), B1(c), B2 and B8.

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Gross Development Value (GDV)		
2.0	**Private Residential**	We have undertaken our own market research into residential re-sale values for apartments in the area and agree that the pricing of the units appears realistic for good quality stock in the area. All unit sizes meet GLA standards.
3.0	**Affordable Residential**	
3.1	Affordable Rent	Overall we believe that the Affordable Rent value calculations are too low and are more reflective of grant-dependent 'social rent' income. As such, we have increased the Affordable Rent capital value to 50% of open market value in line with experience on other projects. This assumes rents up to 80% of market levels, and accounts for management costs and voids.
3.2	Shared Ownership	Shared ownership sale values appear to be satisfactory.
4.0	**Commercial**	These assumptions seem reasonable, based on the comparable evidence.
5.0	**Car parking**	No evidence was provided to support the car park space values but we consider this to be a fair allowance. Many developers do tend to have to give some parking away as sales incentives so this could be considered to be a little optimistic.
6.0	**Ground rents**	The allowances made for ground rents are deemed to be a reasonable reflection of current market values.

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Construction Costs		
7.0	**Construction**	Jackson Coles' overall budget costs for each development type appear reasonable. We note that costs for site clearance and landscaping were estimated as additional. Furthermore Jackson Coles supporting note states that the overall costs provided allow for "base build cost only". This is not clearly defined, but it is assumed that this allows for 'shell and core fit-out' for the commercial units and final fix suitable for immediate occupation for residential.
7.1	Contingency	The Strutt & Parker report mentions 5% contingency, but the calculation shows only 2.5%. Given the potential difficulties in developing the site, such as contamination from current and historic uses, restricted access and its proximity to railway. A contingency of between 2.5-5% appears to be low. Our cost consultants would recommend a contingency of 10% of construction costs at this early stage of the project. As a compromise we have modelled our sensitivity on 7.5% contingency.
7.2	Professional fees	Recognised industry accepted allowances used.
7.3	Purchasers costs	Capital values for the commercial are provided net of purchasers' costs, and residential values gross of purchasers' costs. This complies with standard practice.
7.4	Marketing costs	The Strutt & Parker figure breaks back to roughly 1% of GDV, which in our opinion is too little for a scheme of this size. For this number of units we consider a more realistic allowance to be 2.5% of GDV and have used accordingly in our sensitivity.
7.5	Legal costs	The legal costs associated with preparing the site for redevelopment seems reasonable.
7.6	Letting fees	Recognised industry accepted allowances were used for the letting fees and associated legal costs.
7.7	Disposal fees	Recognised industry accepted allowance used.

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Abnormal/Landscaping Costs		
8.0	**Hard Landscaping**	In broad terms the allowances for hard landscaping appear to be satisfactory. We have estimated circa 12,500 m2 of external area overall.
9.0	**Soft Landscaping**	The soft landscaping allowances are deemed acceptable, although towards the lower end of what would be expected.
10.0	**Abnormal costs**	The supporting letter provided by Jackson Coles for the S&P Report clearly states that no allowances have been made for exceptional/abnormal costs. As such, we would suggest that this needs to be considered and a budget cost provided, especially given the potential difficulties developing the site.
10.1	Remediation	The allowance for site clearance and remediation by Strutt & Parker appears low in comparison to the example provided by Jackson Coles. For the purpose of our own sensitivity we believe it prudent to increase the sum and we have based this on guidance provided by English Partnerships.
s.106 and Mayoral CIL		
11.0	**s.106**	The Strutt & Parker report makes reasonable allowances based on LB Merton policy (and emerging CIL schedule)
12.0	**Mayoral CIL**	The Report states that the total area less the affordable is 211,384 sqft, when in fact it is 144,078 sqft. That apart, the calculation is actually correct. The CIL calculation does not, however, acknowledge the existing built quantum which can be off-set against the calculation. We do not have accurate information as to the existing built volume and therefore we must accept this is a full allowance for the time being, that is likely to reduce with more detailed assessment.

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Finance Costs		
13.0	**Finance costs**	The cost of finance varies depending on a particular developers own financing arrangements. However, the figures allowed are within generally accepted tolerances.
Developers Profit		
14.0	**Developers profit**	The industry standard for developers profit is typically between 15-25% and often reflects the perceived risk of the project. In this case the proposed developer already owns the site, so a case could be made for a reduction in the required profit level. However, we feel that the stated allowance is a reasonable reflection of risk in terms of reward for the developer.
Programme		
15.0	**Programme**	The overall programme for construction and sales is deemed reasonable.